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## STATE BUDGET MAKING IN OHIO

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### *Original Status of Financial Procedure in Ohio*

Senate Bill No. 227, entitled an "Act to Establish a Budget System for the State Officers, Departments, and Institutions," was passed on April 11, 1913, and approved by Governor James M. Cox on May 6, 1913. Nothing was done towards carrying out the provisions of this act until after August 6, as a referendum was threatened against it, and it was deemed wise to wait until the referendum period of ninety days expired before going into its organization.

The law provided that on or before the fifteenth day of November, biennially, in the even numbered years, all state activities requiring appropriations should submit to the Governor a statement of their wants for the next biennium. It also provided that the Auditor of State should furnish the Governor a statement showing the balance standing to the credit of the several appropriations for each department, institution, commission, and office of the state, for each and every current purpose of the state government at the end of the last fiscal years in which appropriation accounts had existed; a statement showing the monthly average of such expenditures from each of the accounts for the fiscal year and also the total monthly average from all of them for the last four fiscal years. It was further provided that all of the departments, institutions, commissions, and officers of the state, upon request, should furnish to the Governor any information desired in relation to the affairs of their respective departments, institutions, or officers.

The information, or rather the statements which the Auditor was supposed to furnish, were very unsatisfactory. It took weeks and months to get them because there were no available records in the Auditor's office from which figures for purposes of comparison could be taken. In other words, there were no comparative records kept up to the time of the installation of the Budget System.

The budget act also provided that, at the beginning of each regular session of the General Assembly, the Governor should submit to the General Assembly the estimates of the departments, institutions, commissions, and offices of state together with his budget of current expenses of the state for the biennial period beginning on the first day of July next thereafter. The act carried the usual appointive power and gave to the Governor the power to examine, without notice, the affairs of any departments, institutions, or public works, commission, or office of the state for the purpose of ascertaining facts, and to make findings and recommendations relative to increasing the efficiency and curtailing the expenses therein. The Governor or his appointees had the power to compel the attendance and testimony of witnesses, administer oaths, and examine such persons as they deemed necessary, and to compel the production of books and papers. The orders and subpoena issued by the Governor or his Budget Commissioner in pursuance of the Authority in them vested by the provisions in this act, could be enforced upon the application of the Governor by proceedings in contempt in any court of common pleas.

I assumed office on November 1, 1913. The Governor was then considering convening the Ohio legislature in extraordinary session for the purpose of passing much needed school legislation and to repeal the 1914 appropriation act if sufficient reductions could be made to warrant this action. My first duty was to take the old 1914 appropriation act, which became available on the sixteenth of February, 1914, tear it apart, analyze it, and report to the Governor whether or not sufficient reductions could be made to warrant his calling a special session. About the middle of January, I reported to him that a million dollars could be lopped off the 1914 appropriations without in any wise affecting the efficiency of the various departments. The new budget was presented to the extraordinary session of the legislature and passed with a reduction of some \$900,000. There was hardly any change made by this legislature in the figures which I presented to them for their consideration.

Under the old scheme of things in Ohio, we had an appropriation year beginning February 16 and ending February 15. We had a fiscal year beginning November 16 and ending November 15. Several of our other institutions and departments ran on different years, and this made all of the records useless for purposes of com-

parison. A bill was then passed fixing the year for all activities of the state government to begin on July 1 and end June 30. This change in years necessitated the four and one-half months budget from February 16 to June 30, the interregnum between the old and the new year.

The old state emergency board was empowered to authorize various departments when appropriations ran short to borrow money from the banks. This was changed by giving to the state emergency board an appropriation sufficient to prevent the carrying forward of deficits. On an average of \$250,000 is given to this board each year, which is quite sufficient to care for any emergencies that may arise within the budget period. It was found that the old emergency board was authorizing the borrowing of money when we were blessed with a plethoric treasury, and a plethoric treasury without budgetary control is a curse to any state.

Towards the end of the 1914 appropriation year, despite the wails and howls emitted by the heads of departments affected by the cuts heretofore mentioned, a study of the balances resulted in the lapsing to the general revenue fund of almost \$1,000,000. This was accomplished through the supervision of expenditures, admonitions to the officials, and holding down the outgo far below that to which these departments were accustomed.

So long as there were no figures available for comparison with previous years the adoption of a system of classified expenditures, without which there could be no budget, was prevented. Under the old regime the legislature usually had before it in considering financial matters only the *ex-parte* testimony of interested persons, whose statements and statistics in support of their alleged needs it was nobody's business to examine critically, and which, in the absence of reliable and exact information, could not be readily refuted.

I found nothing of immediate value in the state reports. The obvious lack in these reports were as follows:

1. Improper classifications and segregation of accounts for the purpose of reporting financial transactions of the department.
2. Inadequate classifications by objects of expenditure.
3. Amounts of expenditure for specific objects not specifically classified.

4. Amounts showing expenditures by objects containing amounts representing inventory on hand.

5. Amounts of expenditure shown in report containing amounts and specific appropriations, which unbalanced any comparison which one might wish to make.

The obvious, helpful reports suggested were:

1. A division of accounts in accordance with budget classifications.

2. A schedule which would show the number of employees and salaries paid to each, to be incorporated in the report so that a comparison could be made as to the number of employees in each of the departments and institutions; and this same system to show the per-capita expenditures for salaries for each of these departments and institutions. This item could be sub-divided further, but it might not be desirable.

3. That all of the Ohio State Reports be incorporated in two volumes and be known as the "Ohio State Reports."

Under the system which formerly prevailed in this state the heads of departments, boards and commissions were requested to submit to the Auditor of State, upon blanks furnished by him, their estimate of funds necessary to run their departments until the next biennium. These requests were then returned to the Auditor of State, who tabulated their wants and submitted them without comment to the incoming legislature. Hearings before the finance committee of the house were held behind locked doors and drawn blinds, and the men who were the best talkers got the most money. It was not a case of need so much as it was a case of "you scratch my back and I will scratch yours." All of the house appropriations were made in two ways, either in lump or inflexible specific appropriations. The lump sum scheme seems to have predominated in appropriations during the last decade, though many examples of specific appropriations occurred during this period. A thoroughly efficient and honest administrative official can oftentimes get better results if he has a free hand in the use of funds, and circumstances sometimes arise which make it desirable to use funds for purposes which the legislature could not foresee. But on the other hand, the same kind of an appropriation in the hands of dishonest or incompetent officials are so easily misused that they have proven generally unsatisfactory and often vicious. Specific appropriations were the

natural ends towards which legislative bodies reacted after having found the lump sum inadequate. The fact that the money appropriated specifically, could be used for no other purposes and no other money was available, made it necessary to allow a wide margin for any contingency that might arise. Usually the maximum amounts provided were not required, but the official thinking that he must allow the money to lapse or spend it for the purposes as specified, was apt to be too free in spending.

Not until the budget was established in 1914 was any attempt made to combine the virtues of the two systems and eliminate their vices. In order to avoid the evils of both lump sum and specific appropriations, appropriations were made specifically but were provided with the necessary degree of flexibility. This was done by means of the transfer system which made it possible to appropriate, instead of maximum estimates, those slightly above the minimum. Provided with the privilege of transfer, departmental officials could reduce their estimates on each item knowing that according to the "law of probability" all projects would not cost the maximum, and that the small margin of safety could be transferred from those which cost the minimum to the few that actually approach the maximum. The result of following this plan was economy and smaller appropriations for specific items, and in consequence a smaller budget. Along with this a check was provided on expenditures for the reason that the request for a transfer invited investigation by the emergency board, and required a statement of explicit reasons why the fund to which transfer was sought was not adequate.

During the early history of Ohio, the state was poor. Funds for expenses were largely raised by direct taxation and the pinch of taxes could be expected to react upon officials and check their waste and extravagance. With tremendous increase in wealth these checks became less effectual and there came a tendency to resort to indirect taxation for funds with which to run the government. Scandalous waste and inefficiency resulted. In 1914 a book of budget classifications and rules of procedure was distributed in all of the departments at the same time that the blanks for their estimates were requested. According to this classification all known departmental wants were itemized to the penny. The fact that the original requests had to be itemized reduced considerably the total

of the estimates. The word "Contingencies," which had appeared in divers places in all past appropriation bills was entirely eliminated. It had been the custom to request under this head large sums of money, and what few records there were showed that it was disbursed for all sorts of things from "Personal Services" to "Additions and Betterments."

The old appropriation bills, because of the appropriations of "Receipts and Balances" year after year, were absolutely beyond the comprehension of any person who tried to digest or analyze the financial acts of any session. In fact, with these words appearing in the bill, no one knew how much money was being voted from the state treasury. So long as this practice continued attempts at retrenchments were largely nullified by these blind appropriations and it was urged upon the legislature that this practice be discontinued. A survey showed that all departments receiving these blind appropriations of "Receipts and Balances" were guilty of the greatest extravagance. Detailed classifications checked these extravagances, because the General Assembly would not countenance the granting of money for purposes not entitled to state aid.

Under the old scheme hearings on the appropriation bills were had by the Committee on Finance of the House of Representatives, and then the whole thing was duplicated by the Senate Committee on Finance. This practice was not only expensive but it prolonged the session indefinitely.

### *Suggestions Made*

The budget is not new. Primarily it balances income against outgo, prevents extravagance, and forces attention to fundamentals long recognized in English finance and administration. In England the ministry stakes its tenure of office on the passage of the budget substantially as prepared. There it is not merely a recommendation by the executive, but it is the fiscal program of the ruling powers in both the legislative and executive branches. It is effective because under this arrangement it has behind it all the force of the party organization. In Ohio the budget is merely an executive recommendation, and the most persuasion that can be given it is its preparation by expert talent.

In the installation of a budget it is quite obvious that certain reorganizations are necessary. The budget officer should report

directly to the Governor, and should give to him economy and efficiency reports on each and every function of state government. Some scheme should be evolved whereby the legislative and executive functions may be brought closer together in the process of budget making. For instance, Wisconsin provided during the last session of her legislature, that the Governor might sit with the budget authorities during a certain period of its preparation.

The Governor should have the selection of the officials who are to be his advisors, and most of the appointments now referred to the senate for confirmation should be left to him alone. On the other hand, it should be understood that the acceptance of budget recommendations by the legislature does not deprive it of power to originate legislation, and the preparation of the budget does not involve the acquiescence of the legislative majority in advance.

It was recommended to the Ohio legislature that public hearings be had on all estimates—under the old scheme hearings being held behind locked doors. This was designed to bring about citizen coöperation, coöperation of the people who are interested in various projects, and the body voting the appropriation.

The attention of the legislature was also invited to ways and means for shortening their session. It was pointed out to them that unduly protracted sessions increased the cost of each law—this cost now being \$269 in Ohio, with only New York and Illinois higher. Emphasis was placed upon the recommendations that the quality of laws must not be lowered, and that time should not be saved through the sacrifice of quality of their work. I wanted the adoption of a rule prohibiting the introduction of any bill in either house carrying an appropriation unless the request for money was classified according to budgetary form. I also asked for the adoption of a rule keeping committees up to their work and penalizing them when absent or tardy. This suggestion, which savored strongly of discipline, went unheeded by the last session of the legislature.

If retrenchment was to be brought about, some radical changes in the state governmental machinery were necessary in the interest of both economy and efficiency. The following consolidations were recommended:

Building and Loan Department with the Department of Banks and Banking.



The State Library, the Traveling Library, the Library Organizer with Ohio State University.

The Adjutant General's Department with the Ohio National Guard.

The Medical Board, the Pharmacy Board, the Embalming Examiners, the Dental Board with the State Examining Board.

The Lima State Hospital, Reformatory for Women, the Soldiers and Sailors Orphans Home with the Board of Administration.

The Bureau of Vital Statistics with the State Board of Health, and

The State House and Grounds with the Board of Public Works.

Also I recommended the following abolishments:

Commissioner of Soldiers Claims, Public Printer, State Bindery, Armory Board, Flag and Relic Room, Extension Work by Educational Institutions, not specifically authorized by the General Code, the Naval Militia, and Cavalry in the Ohio National Guard.

None of these recommendations was even considered.

The total request of the budget for the period beginning February 16, 1915, and ending January 30, 1917, was \$50,128,000. The total recommendations for the same period were \$39,927,000. There was a free and unincumbered balance in the state treasury on the day before the budget bill became a law, of \$3,000,000. The estimated revenues over my budget recommendations were \$1,273,000; this provided a liberal margin for shrinkage in revenues in this period, and kept the expenditures within the revenues. Adding to this excess of revenues over my recommendations the balance of \$3,000,000, which was a heritage to the new administration, there was \$4,273,000 more than was actually needed, according to the budget recommendations, for maintenance of the state's activities.

The total appropriations for this period, as finally passed, reached the stupendous sum of \$46,298,000 or an excess over the budget recommendations of \$6,371,000. The appropriations exceeded the estimated revenues by \$5,098,000.

### *Advance Secured*

The Governor of Ohio during 1913 and 1914, although pilloried as an enemy of state progress, is here given unstinted tribute for making possible the modern fiscal system Ohio enjoyed during these years. The budget system was first condemned as being

autocratic and a dangerous power in the hands of the Governor. It was declared to be so vicious that it must and would be abolished upon the accession of his opponents to power; that it was not a function of the Governor and would be transferred to the State Auditor's office.

In spite of this misrepresentation and lung thinking in the last campaign, the whole system was kept right where it was placed at the beginning. The campaign conducted last year in Ohio, mainly on the contention that the Governor should not have so much power, was won by those who said that they would limit his power. We have seen that this fear of executive power was merely pretense.

During the summer of 1914 a special session of the legislature was called for the first time in its history to reduce taxes. They were in session one day which I believe is the record for a session of any legislature in this country. This session cost approximately \$3,500 and resulted in a horizontal cut in taxes approximating \$2,200,000.

The increased demands from the various state departments due to growth of population and developments of the state in general, which necessitated larger expenditures for activities then being performed, and the clamor by the people for state departments to undertake new functions, all tended to swell the budget estimates and make the job of paring down much harder. There were a number of demands for new activities and increased expenditures that could not be well denied. It was my opinion that a rigid curtailment should be made in the allotments to such departments as were performing service of doubtful value.

I found many activities long established and yet appropriated for, which had absolutely no reason for continuing to receive state appropriations. Expenditures begun at a time when conditions were different were often continued year after year when the necessity for them no longer existed. No legislator could be expected to familiarize himself with ninety different departments and the burden of proving that the necessity for an appropriation no longer obtained was on the person suggesting the change. Now the system is reversed.<sup>1</sup> If after careful inquiry the budget commissioner refuses to recommend an appropriation, his recommendation is

<sup>1</sup> Copies of the Ohio 1915-1917 Budget Report may be had by addressing Mr. W. O. Hefferman, of The National Cash Register Company, of Dayton, Ohio.

*prima facie* evidence that the money should not be spent. The budget of 1914 provided for the General Assembly a means of obtaining an impartial statement of facts, which were obtained by diligent research and submitted by a department which had no axes to grind and was biased by no consideration of prejudice or favor.